

February 1, 2002

California Consumer Power Authority
And Conservation Financing Authority
Sacramento, California

Dear Members of the Authority:

Covanta Energy is pleased to forward the following comments to the California Power Authority on the role that renewable energy can play in providing numerous environmental benefits as well as increasing the diversity of the state's energy portfolio.

Covanta operates 15 energy generating facilities in California, including one waste-to-energy facility, 3 geothermal, 4 biomass and 7 landfill gas projects. Covanta generates approximately 235 megawatts of renewable electricity.

Covanta believes that in order to ensure a level playing field for renewable energy generators and to mitigate the real and valid financial concerns of investor-owned utilities and local governments, certain areas must continue to be addressed. These include protection of existing power contracts as well as adopting incentives for renewable energy such as the renewable portfolio standard (RPS). To that end, we applaud the California Power Authority's role in encouraging the preservation of existing renewables and development of new.

ENCOURAGING RENEWABLE POWER

Covanta believes that renewable energy provides California with a number of benefits, including:

- Increasing the diversity of the resource base, thereby offering more options to customers;
- Providing numerous environmental benefits, including utilization of indigenous natural resources such as wind, solar, biomass (including trash), and geothermal energy; improvements in air quality; and reductions in urban and agricultural waste; and
- Increasing reliance on sustainable fuels as opposed to depleting nonrenewable fossil fuels; and
- Mitigating the slightly higher cost of existing power purchase contracts held by the investor-owned utilities.

Covanta also believes the existing definition of renewable energy currently in both California and Federal law, must be maintained. Further, any attempt to either modify or differentiate between renewables (e.g. "non-polluting" vs. "polluting") only serves to undermine the Authority's admirable goals of encouraging the growth of new renewables while sustaining the continued operation of existing renewables. Few energy generators have no environmental impact (when one considers not only the operations but construction and equipment manufacture as well) and the numerous benefits renewables of all types provide over fossil fuel generators risks being minimized in that debate. For instance, WTE facilities have been recognized by EPA for their contribution to the reduction in overall greenhouse gas emissions. These significant reductions - 11 million metric tons carbon equivalent – are achieved from both offsetting fossil fuels and from offsetting the emissions that would otherwise be generated if the waste used as fuel were otherwise disposed of in a landfill. Similarly, biomass facilities offset significant emissions that would otherwise be generated if the fuel they use were otherwise open-burned in agriculture operations or forest fires.

Waste-to-energy is a clean, environmentally sound source of renewable power that has been recognized within the "biomass" definition of Federal policy for more than 20 years. WTE's stellar environmental performance is in part due to implementation of new Clean Air Act rules requiring installation of state-of-the art pollution control equipment. California has already reconfirmed WTE's appropriate place as a renewable energy source in existing state statute, and strongly recommend that any program implemented by the Authority retain that definition.

There are a number of options available to ensure that renewables have a meaningful opportunity to compete in the marketplace for electricity and energy services. In fact, many states have adopted one or more of the following options:

- Promoting "green pricing" programs that ask consumers to pay a premium for renewable power;
- Establishing a market-based renewable portfolio standard that would require a certain amount of renewable as a part of the state's energy mix
- Establishing a renewable energy fund through a non-bypassable charge that would "buy-down" the price of renewable power to make it more competitive.

Covanta supports the California Power Authority's recommendations for including both new and renewable power in its clean energy financing and strategic reserve initiatives. Additionally, Covanta supports as a very appropriate and effective way to provide renewables with a meaningful opportunity to compete in California the establishment a Renewable Portfolio Standard (RPS). This market-based approach requires that renewables compete against other renewables for a share of the portfolio.

As you may be aware, many states have recently adopted or are in the process of establishing rules to implement renewable portfolio standards. As California's energy policy continues to evolve, we are pleased that regulators, state officials and legislators

are discussing and debating how best to create new incentives to ensure that the renewable resources in the state not only flourish but new generation is also developed.

UNCERTAINTY IN THE FUTURE SUPPLY OF ELECTRICITY

Covanta does have concerns with the eminent domain powers called for by the Power Authority. It is our belief that these powers would add to the market uncertainty and could undermine healthy, stable energy markets in California. The potential overlap in authority between the CPA and other state agencies suggests the potential for further confusion. Finally, continued changes in the regulatory environment, including the definition of renewable, will jeopardize the achievement of the goals identified by the Authority.

Covanta looks forward to working with you on these vitally important issues. If I may answer any questions, please do not hesitate to contact me.

Sincerely,

Paula Soos
Senior Director, Policy and Communications
Covanta Energy